

**REPORT OF THE AUDIT OF THE
SHELBY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SHELBY COUNTY FISCAL COURT

June 30, 2005

The Auditor of Public Accounts has completed the audit of the Shelby County Fiscal Court for fiscal year ended June 30, 2005. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$19,795,440 as of June 30, 2005. The fiscal court had unrestricted net assets of \$14,773,936 in its governmental activities as of June 30, 2005, with total net assets of \$19,679,470. Total net cash and cash equivalents for the business-type activities were \$108,381 with total net assets of \$115,970.

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Rob Rothenburger, Shelby County Judge/Executive
Members of the Shelby County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shelby County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Shelby County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Shelby County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shelby County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
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Members of the Shelby County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shelby County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 10, 2006, on our consideration of Shelby County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 10, 2006

SHELBY COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Rob Rothenburger	County Judge/Executive
Tony Carriss	Magistrate
Jim Robertson	Magistrate
Cordy Armstrong	Magistrate
Michael Riggs	Magistrate
Betty Curtsinger	Magistrate
Hubert Pollett	Magistrate
Allen Ruble	Magistrate

Other Elected Officials:

Hart Megibben	County Attorney
Bobby Waits	Jailer
Sue Carole Perry	County Clerk
Kathy Nichols	Circuit Court Clerk
Mike Armstrong	Sheriff
Brad McDowell	Property Valuation Administrator
Ronald Walldridge, Jr.	Coroner

Appointed Personnel:

Paula Webb	County Treasurer
James Ray Wiley	Occupational Tax Collector
Karen Blake	Finance Officer

ROB ROTHENBURGER

Shelby County Judge Executive

419 Washington Street

Shelbyville, KY 40065

(502) 633-1220 – Fax (502) 633-7623 – TDD 1-800-247-2510

Management Discussion and Analysis

As financial management of the Shelby County Fiscal Court, we offer readers of these government-wide financial statements this narrative overview and analysis of the financial activities of the Fiscal Court for the fiscal year ended June 30, 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant financial issues and activities and to identify any significant changes in our financial position. We encourage readers to consider the information presented here in conjunction with the government-wide financial statements as a whole.

Overview of the Government-wide Financial Statements

The County's basic financial statements, which consists of two government-wide and various fund financial statements, are designed to provide readers with a broad overview of the Fiscal Courts finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information government-wide on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fiscal Court is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, result in increased net assets, which indicate an improved financial position.

The Statement of Activities presents information showing how a government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows.

The fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances. The fund financial statements focus on how money flows into and out of the funds. The fund balance at year-end shows what is available for spending in future periods. The reconciliation at the bottom of these statements shows how the government-wide statements, the statement of net assets, and the statement of activities differ from one another.

The notes to the financial statement provide additional information that is essential to a full understanding of the data provided in the basic government-wide financial statements.

Financial Highlights

The Statement of Net Assets shows the Fiscal Court has \$15,104,964 in current assets and \$16,664,475 in non-current assets. Current assets consist of cash and cash equivalents. Non-current assets consist of capital assets (land, land improvements, vehicles, buildings and equipment, infrastructure, etc.) net of depreciation; the liabilities of the Fiscal Court are current liabilities due within one year of \$4,190,000, and non-current liabilities due in more than one year of \$6,809,000. Net assets are \$19,795,440. From year to year, changes in net assets are an indicator of the Fiscal Court's financial position.

The Statement of Activities shows government-wide revenues for the Shelby County Fiscal Court were \$8,839,162 for fiscal year 2005. The majority of revenues were property tax assessments and occupational taxes.

Management Discussion and Analysis
Shelby County
June 30 2005

Financial Highlights (Continued)

The fund financial statements show the inflow and outflow of cash receipts and cash expenditures. The change in fund balance of \$1,216,719 shows that the Fiscal Court used all of its available current year revenues. Total revenues were \$13,184,071; operating expense and capital outlay were \$14,400,790. Expenditures exceeded revenues by \$1,216,719. Therefore, the Fiscal Court had a decrease in its fund balance.

Comparative Financial Statements

	Shelby County Net Assets	
	<u>2004</u>	<u>2005</u>
Assets		
Cash and Cash Equivalents	\$9,473,575	\$15,104,964
Capital Assets	<u>16,135,370</u>	<u>16,664,475</u>
Total Assets	25,608,945	31,769,439
Liabilities		
Current Liabilities	279,000	974,999
Noncurrent Liabilities	<u>5,074,000</u>	<u>10,999,000</u>
Total Liabilities	5,353,000	11,973,999
Net Assets		
Invested in capital assets, Net of related debt	10,782,370	4,690,476
Restricted for Debt Service	216,08	222,647
Unrestricted	<u>9,257,490</u>	<u>14,882,317</u>
Total Net Assets	\$20,255,945	\$19,795,440

Management Discussion and Analysis
Shelby County
June 30 2005

Comparative Financial Statements (Continued)

	Shelby County Statement of Activities	
	<u>2004</u>	<u>2005</u>
Program Revenues:		
Charges for Services	\$1,799,758	\$1,986,849
Operating Grants & Contributions	955,590	1,700,956
Capital Grants & Contributions	1,029,376	767,877
Total Program Revenues	3,784,724	4,455,682
General Revenues		
Taxes	5,736,814	5,902,611
Excess Fees	653,379	473,872
Miscellaneous Revenues	1,995,905	2,310,282
Accrued Interest Received	134,410	152,397
Total General Revenues	8,520,291	8,839,162
Total Revenues	12,305,232	13,294,844
Program Expenses		
General Government	5,410,253	4,731,275
Protection to Persons and Property	3,447,017	4,971,120
General Health and Sanitation	646,968	989,906
Social Services	428,541	494,174
Recreation and Culture	815,999	743,977
Roads	1,484,535	1,633,957
Debt Services	43,205	28,145
Capital Projects	185,288	77,943
Jail Canteen	110,649	85,103
Total Expenses	12,572,455	13,755,600
Change in Net Assets	(267,223)	(486,427)
Net Assets-Beginning	20,523,168	20,255,945
Net Assets-Ending	\$20,255,945	\$19,795,440

Financial Analysis of the County's Funds

As noted earlier, Shelby County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Shelby County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Management Discussion and Analysis
Shelby County
June 30 2005

The County has four major governmental funds. These are 1) general fund, 2) road fund, 3) jail fund, 4) EMS fund, there are three non-major funds, and they are A) L.G.E.A fund and B) KaColt fund, C) Special fund.

1. The General fund is the chief operating fund of Shelby County. The Fiscal year began with a fund balance of \$7,033,391. During the fiscal year, the General fund had \$9,623,139 in revenues, and \$7,646,333 in expenditures with an ending balance as of June 30, 2005 of \$6,569,867.
2. The road fund is the fund related to county road and bridge construction and maintenance. The fiscal year began with a fund balance of \$1,585,213. During the fiscal year, the Road Fund had \$1,055,257 in revenues, \$1,582,808 in expenditures and \$500,000 in transfers with an ending balance of \$1,557,662.
3. The jail fund is used to account for the operation of the County's detention program. The beginning balance was \$17,956. During the fiscal year, the Jail Fund had \$1,000,839 in revenues, \$2,718,287 in expenditures, and \$983,830 in transfers and \$6,899,999 in Capital Lease Proceeds with an ending balance of \$6,184,337.
4. The EMS fund is used to fund the operations of the ambulance service to meet the needs of the sick and injured throughout the county. The beginning balance was \$33,786. During the fiscal year, the EMS Fund showed \$1,035,566 in revenues and \$1,994,332 in expenditures and \$956,500 in transfers with an ending balance of \$31,520.

Non major funds overview:
(L.G.E.A., Special and KaColt Funds)

The beginning balance (July 1, 2004) was \$595,803, the ending balance (June 30, 2005) showed \$469,270 in revenues and \$459,030 in expenditures with an ending balance of \$606,043.

Proprietary Funds Overview. The County's proprietary fund statement provides the same type of information found in the business-type activities column of the government-wide statements, but in more detail.

The canteen jail fund had net assets of \$115,970 as of June 30, 2005 and a cash balance of \$108,381 as of June 30, 2005.

The health fund had net assets of \$47,154 as of June 30, 2005 and a cash balance of \$47,154 as of June 30, 2005.

General Budgetary Highlights

The County's original budget was amended during the fiscal year increasing the operating budget by \$1,379,273. Budget amendments were made to all areas due to grants, surplus cash carried forward, increase in actual Occupational Tax collections as opposed to projected collection and loan taken out for new jail expansion project.

Actual operating revenues were \$2,454,475.00 more than originally budgeted by Fiscal Court. This increase was primarily from intergovernmental sources and tax revenues.

Actual operating expenditures were \$1,214,436 more than originally budgeted by Fiscal Court.

Management Discussion and Analysis
Shelby County
June 30 2005

Capital Assets and Debt Administration

Capital Assets: Shelby County's investment in capital assets for its governmental and business type activities as of June 30, 2005, amount to \$19,795,440 (see note to Financial statement number 3). This investment in capital assets includes vehicles, road equipment, new county buildings and road projects.

Major capital asset events during the 2004-05 fiscal year included purchase of 1 ambulance, sheriff's department 5 vehicles, begin construction of new Animal Shelter, and begin expansion of Detention Center, McFarland Road and Anderson Lane Bridge.

Long-term debt. At the end of the 2004-05 fiscal year, Shelby County had total long term debt outstanding of \$11,973,999. The amount of this debt due within the next year is \$974,999 (see note to Financial statement number 4). This debt is for the Family Activity Center, Meadowbrook sewer project, Detention Center Expansion and KaColt Loans.

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005-06 fiscal year budgets:

The 2005-06 fiscal years Adopted Budget continues most services at current levels.

Programs cuts at the State and Federal level, particularly relating to the cost of housing prisoners, may have a negative impact on funding of county operations impacted by State revenue shortfalls.

Request for Information:

This financial report is designed to provide a general overview of Shelby County's financial position for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to:

Paula Webb
Shelby Co. Fiscal Court Treasurer
419 Washington Street
Shelbyville, Ky. 40065
502-633-1220

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SHELBY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

SHELBY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 14,996,583	\$ 108,381	\$ 15,104,964
Total Current Assets	14,996,583	108,381	15,104,964
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	754,317		754,317
Land and Land Improvements	647,825		647,825
Buildings	9,601,230		9,601,230
Vehicles	1,075,627		1,075,627
Equipment	518,878	7,589	526,467
Infrastructure Assets - Net of Depreciation	4,059,009		4,059,009
Total Noncurrent Assets	16,656,886	7,589	16,664,475
Total Assets	31,653,469	115,970	31,769,439
LIABILITIES			
Current Liabilities:			
General Obligation Bonds	210,000		210,000
Financing Obligations	764,999		764,999
Total Current Liabilities	974,999		974,999
Noncurrent Liabilities:			
General Obligation Bonds	4,190,000		4,190,000
Financing Obligations	6,809,000		6,809,000
Total Noncurrent Liabilities	10,999,000		10,999,000
Total Liabilities	11,973,999		11,973,999
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,682,887	7,589	4,690,476
Restricted For:			
Debt Service	222,647		222,647
Unrestricted	14,773,936	108,381	14,882,317
Total Net Assets	\$ 19,679,470	\$ 115,970	\$ 19,795,440

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

SHELBY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 4,731,275	\$ 181,803	\$ 161,821	\$
Protection to Persons and Property	4,971,120	1,683,072	502,154	
General Health and Sanitation	989,906	11,191	774,564	
Social Services	494,174		16,747	
Recreation and Culture	743,977			
Roads	1,633,957		245,679	767,877
Debt Service	28,145			
Capital Projects	77,943			
Total Governmental Activities	13,670,497	1,876,066	1,700,965	767,877
Business-type Activities:				
Jail Canteen	85,103	110,783		
Total Business-type Activities	85,103	110,783		
Total Primary Government	\$ 13,755,600	\$ 1,986,849	\$ 1,700,965	\$ 767,877

General Revenues:

Taxes:
Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes
Excess Fees
Miscellaneous Revenues
Accrued Interest Received

Total General Revenues
Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (4,387,651)	\$	\$ (4,387,651)
(2,785,894)		(2,785,894)
(204,151)		(204,151)
(477,427)		(477,427)
(743,977)		(743,977)
(620,401)		(620,401)
(28,145)		(28,145)
(77,943)		(77,943)
<u>(9,325,589)</u>		<u>(9,325,589)</u>
	25,680	25,680
	<u>25,680</u>	<u>25,680</u>
<u>\$ (9,325,589)</u>	<u>\$ 25,680</u>	<u>\$ (9,299,909)</u>
2,202,895		2,202,895
35,659		35,659
348,872		348,872
3,315,185		3,315,185
473,872		473,872
2,310,282		2,310,282
152,397	242	152,639
<u>8,839,162</u>	<u>242</u>	<u>8,839,404</u>
(486,427)	25,922	(460,505)
<u>20,165,897</u>	<u>90,048</u>	<u>20,255,945</u>
<u>\$ 19,679,470</u>	<u>\$ 115,970</u>	<u>\$ 19,795,440</u>

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

SHELBY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road Fund	Jail Fund	EMS Fund	Non- Major Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 6,569,867	\$ 1,557,662	\$ 6,184,337	\$ 31,520	\$ 606,043	\$ 14,949,429
Total Assets	<u>\$ 6,569,867</u>	<u>\$ 1,557,662</u>	<u>\$ 6,184,337</u>	<u>\$ 31,520</u>	<u>\$ 606,043</u>	<u>\$ 14,949,429</u>
FUND BALANCES						
Unreserved:						
General Fund	\$ 6,569,867	\$	\$	\$	\$	\$ 6,569,867
Special Revenue Funds		1,557,662	6,184,337	31,520	383,396	8,156,915
Debt Service Fund					222,647	222,647
Total Fund Balances	<u>\$ 6,569,867</u>	<u>\$ 1,557,662</u>	<u>\$ 6,184,337</u>	<u>\$ 31,520</u>	<u>\$ 606,043</u>	<u>\$ 14,949,429</u>

Reconciliation to Statement of Changes In Net Assets:

Total Fund Balances	\$ 14,949,429
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	25,267,868
Accumulated Depreciation	(8,610,982)
Internal Service Fund Net Assets Reported in Governmental Activities	47,154
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(7,074,000)
Bonded Debt	(4,400,000)
Short-term Financing Anticipation Note	(499,999)
Net Assets Of Governmental Activities	<u>\$ 19,679,470</u>

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

SHELBY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>EMS FUND</u>
REVENUES				
Taxes	\$ 5,902,421	\$	\$	\$
Excess Fees	473,872			
Licenses and Permits	165,734			
Intergovernmental	860,049	970,828	790,436	10,689
Charges for Services	14,107		120,087	1,020,313
Miscellaneous	2,089,543	59,001	88,052	3,641
Interest	117,413	25,428	2,264	923
Total Revenues	<u>9,623,139</u>	<u>1,055,257</u>	<u>1,000,839</u>	<u>1,035,566</u>
EXPENDITURES				
General Government	2,822,958			
Protection to Persons and Property	961,843	625	1,550,877	1,457,094
General Health and Sanitation	552,044			
Social Services	485,601			
Recreation and Culture	865,703			
Roads		1,304,798		
Debt Service	78,705		754,317	
Capital Projects		77,943		
Administration	1,879,479	199,442	413,093	537,238
Total Expenditures	<u>7,646,333</u>	<u>1,582,808</u>	<u>2,718,287</u>	<u>1,994,332</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,976,806</u>	<u>(527,551)</u>	<u>(1,717,448)</u>	<u>(958,766)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds			6,400,000	
Financing Obligation Anticipation Note			499,999	
Transfers From Other Funds		500,000	983,830	956,500
Transfers To Other Funds	(2,440,330)			
Total Other Financing Sources (Uses)	<u>(2,440,330)</u>	<u>500,000</u>	<u>7,883,829</u>	<u>956,500</u>
Net Change in Fund Balances	(463,524)	(27,551)	6,166,381	(2,266)
Fund Balances - Beginning	7,033,391	1,585,213	17,956	33,786
Fund Balances - Ending	<u>\$ 6,569,867</u>	<u>\$ 1,557,662</u>	<u>\$ 6,184,337</u>	<u>\$ 31,520</u>

The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Non- Major Funds	Total Governmental Funds
\$	\$ 5,902,421
	473,872
	165,734
462,901	3,094,903
	1,154,507
6,369	2,246,606
	146,028
<u>469,270</u>	<u>13,184,071</u>
	2,822,958
	3,970,439
430,590	982,634
	485,601
	865,703
	1,304,798
28,440	861,462
	77,943
	3,029,252
<u>459,030</u>	<u>14,400,790</u>
<u>10,240</u>	<u>(1,216,719)</u>
	6,400,000
	499,999
	2,440,330
	(2,440,330)
	<u>6,899,999</u>
10,240	5,683,280
595,803	9,266,149
<u>\$ 606,043</u>	<u>\$ 14,949,429</u>

The accompanying notes are an integral part of the financial statements.

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**SHELBY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

**SHELBY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 5,683,280
--------------------------------------------------------	--------------

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	1,489,449
Depreciation Expense	(959,621)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligation Proceeds	(6,400,000)
Financing Obligation Anticipation Note	(499,999)
Financing Obligation Principal Payment	79,000
Bond Principal	200,000
Internal Service Fund Net Elimination Entry	(78,536)

Change in Net Assets of Governmental Activities	\$ (486,427)
-------------------------------------------------	--------------

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SHELBY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

SHELBY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

	<u>Business - Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Jail Canteen Fund</u>	<u>Health Benefit Fund</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 108,381	\$ 47,154
Total Current Assets	<u>108,381</u>	<u>47,154</u>
Noncurrent Assets:		
Capital Assets:		
Vehicles and Equipment	9,035	
Less Accumulated Depreciation	<u>(1,446)</u>	
Total Noncurrent Assets	<u>7,589</u>	
Total Assets	<u>115,970</u>	<u>47,154</u>
Net Assets		
Invested in Capital Assets,		
Net of Related Debt	7,589	
Unrestricted	<u>108,381</u>	<u>47,154</u>
Total Net Assets	<u>\$ 115,970</u>	<u>\$ 47,154</u>

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

SHELBY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>Business - Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Jail Canteen Fund</u>	<u>Health Benefit Fund</u>
Operating Revenues		
Premiums	\$	\$ 983,555
Canteen Receipts	110,783	
Total Operating Revenues	<u>110,783</u>	<u>983,555</u>
Operating Expenses		
Cost of Sales	40,932	
Educational and Recreational	11,372	
Depreciation	723	
Inmate Fee	11,108	
Administrative Expense		1,064,571
Total Operating Expenses	<u>64,135</u>	<u>1,064,571</u>
Operating Income	<u>46,648</u>	<u>(81,016)</u>
Nonoperating Revenues (Expenses)		
Interest Income	242	2,480
Inmate Refunds	<u>(20,968)</u>	
Total Nonoperating Revenues (Expenses)	<u>(20,726)</u>	<u>2,480</u>
Change In Net Assets	25,922	(78,536)
Total Net Assets - Beginning	<u>90,048</u>	<u>125,690</u>
Total Net Assets - Ending	<u><u>\$ 115,970</u></u>	<u><u>\$ 47,154</u></u>

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

SHELBY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>Business - Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Jail Canteen Fund</u>	<u>Health Benefit Fund</u>
Cash Flows From Operating Activities		
Receipts From Customers	\$ 110,783	\$ 983,555
Administrative Expense		(1,064,571)
Cost of Sales	(40,932)	
Educational and Recreational	(11,372)	
Inmate Fees	(11,108)	
Net Cash Provided (Used) By Operating Activities	<u>47,371</u>	<u>(81,016)</u>
Cash Flows From Noncapital Financing Activities		
Inmate Refunds on Accounts	(20,968)	
Net Cash Used By Noncapital Financing Activities	<u>(20,968)</u>	
Cash Flows From Investing Activities		
Interest Earned	242	2,480
Net Cash Provided By Investing Activities	<u>242</u>	<u>2,480</u>
Net Increase (Decrease) in Cash and Cash Equivalents	26,645	(78,536)
Cash and Cash Equivalents - July 1, 2004	<u>81,736</u>	<u>125,690</u>
Cash and Cash Equivalents - June 30, 2005	<u><u>\$ 108,381</u></u>	<u><u>\$ 47,154</u></u>

The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

	Business - Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
	Jail Canteen Fund	Health Benefit Fund
Reconciliation of Operating Income to		
Net Cash Provided (Used) by Operating Activities		
Operating Income	\$ 46,648	\$ (81,016)
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities		
Depreciation Expense	723	
Net Cash Provided (Used) By Operating Activities	<u>\$ 47,371</u>	<u>\$ (81,016)</u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Shelby County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government.

C. Shelby County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Shelby County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Shelby County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

EMS Fund - This fund is used to account for the county emergency medical service activities. Revenues are received from patients and transfers from the General Fund.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Special Fund and KACOLT Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, EMS Fund, and Special Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The KACOLT Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following major proprietary funds:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Health Benefit Fund - This fund accounts for the County's self-insurance activities for employee health care. Revenues are received from the administrative expenses of the governmental funds which pay employees of the County. Expenses are payments to health care providers, payments to the contracted administrator, and premiums for reinsurance.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings	50,000	10-75
Building Improvements	50,000	10-40
Machinery and Equipment	5,000	3-25
Infrastructure	30,000	10-50
Intangibles	5,000	2-40
Vehicles	5,000	5

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Shelby County Fiscal Court: U.S. 60 Water District and West Shelby Water District.

Note 2. Deposits and Investments

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government follows the requirements of KRS 41.240(4) and does not have a deposit policy for custodial risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 647,825	\$	\$	\$ 647,825
Construction In Progress		754,317		754,317
Total Capital Assets Not Being Depreciated	647,825	754,317		1,402,142
Capital Assets, Being Depreciated:				
Buildings	10,903,402			10,903,402
Vehicles	2,154,469	332,997		2,487,466
Equipment	821,341	79,069		900,410
Infrastructure	9,251,382	323,066		9,574,448
Total Capital Assets Being Depreciated	23,130,594	735,132		23,865,726
Less Accumulated Depreciation For:				
Buildings	(1,175,888)	(126,284)		(1,302,172)
Vehicles	(1,137,976)	(273,863)		(1,411,839)
Equipment	(329,863)	(51,669)		(381,532)
Infrastructure	(5,007,634)	(507,805)		(5,515,439)
Total Accumulated Depreciation	(7,651,361)	(959,621)		(8,610,982)
Total Capital Assets, Being Depreciated, Net	15,479,233	(224,489)		15,254,744
Governmental Activities Capital Assets, Net	<u>\$ 16,127,058</u>	<u>\$ 529,828</u>	<u>\$ 0</u>	<u>\$ 16,656,886</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 9,035		\$	\$ 9,035
Total Capital Assets Being Depreciated	9,035			9,035
Less Accumulated Depreciation For:				
Vehicles and Equipment	(723)	(723)		(1,446)
Total Accumulated Depreciation	(723)	(723)		(1,446)
Total Capital Assets, Being Depreciated, Net	8,312	(723)		7,589
Business-Type Activities Capital Assets, Net	\$ 8,312	\$ (723)	\$ 0	\$ 7,589

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 12,346
Protection to Persons and Property	246,188
General Health and Sanitation	2,560
Recreation and Culture	78,274
Social Services	8,573
Roads, Including Depreciation of General Infrastructure Assets	<u>611,680</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 959,621</u>
<u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 723</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 723</u>

Note 4. Long-term Debt

A. Financing Obligations - KACoLT Fund

1) US 60 Water District (Woodlawn)

On November 1, 1993, Shelby County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$237,000. The purpose of the lease was for waterline extension. The project was subleased to the US 60 Water District. During the fiscal year, the county received \$12,000 principal and \$7,173 interest from the US 60 Water District. The county then paid this money to Bank One (the trustee). The balance of the receivable and the liability on June 30, 2005, was \$123,000.

2) US 60 Water District (Rockbridge)

On August 7, 1996, Shelby County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$80,000. The purpose of the lease was for construction of rural water lines. The project was subleased to the US 60 Water District. During the fiscal year, the county received \$3,000 principal and \$3,531 interest from the US 60 Water District. The county then paid this money to Bank One (the trustee). The balance of the receivable and the liability on June 30, 2005, was \$56,000.

3) Mt. Eden Fire District

On September 11, 2000, Shelby County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$98,000. The purpose of the lease was for the construction of a firehouse. The project was subleased to the Mt. Eden Fire District. During the fiscal year, the county received \$2,000 principal and \$5,807 in interest from Mt. Eden Fire District. The county then paid this money to National City (the trustee). The balance of the receivable and the liability on June 30, 2005, was \$90,000.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Long-term Debt (Continued)

A. Financing Obligations - KACOLT Fund (Continued)

The following is a schedule of future minimum lease payments as of June 30, 2005.

Year	US 60 Water District (Woodlawn)	US 60 Water District (Rockbridge)	Mt. Eden Fire District	Total
2006	19,472	7,536	7,437	34,445
2007	19,733	7,276	8,257	35,266
2008	18,963	7,016	8,072	34,051
2009	19,169	6,755	7,887	33,811
2010	19,321	7,468	7,702	34,491
2011-2014	55,554	28,498	29,903	113,955
2015-2019		13,949	37,654	51,603
2020-2024			35,792	35,792
2025-2026			13,499	13,499
Total Minimum Lease	152,212	78,498	156,203	386,913
Payment Less Interest	(29,212)	(22,498)	(66,203)	(117,913)
Present Value of Minimum Lease Payments	<u>\$ 123,000</u>	<u>\$ 56,000</u>	<u>\$ 90,000</u>	<u>\$ 269,000</u>

B. Financing Obligation – General Fund

On June 21, 2001 the County entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust for the construction of sewer lines. The lease term for this agreement is 10 years with the balance to be paid in full January 20, 2011. The total balance of the agreement is \$405,000 as of June 30, 2005.

The following is a schedule of future minimum lease payments as of June 30, 2005:

Year	Meadow Brook Sewer Project
2006	79,082
2007	80,964
2008	77,700
2009	79,332
2010	75,816
2011	77,197
Total Minimum Lease	\$ 470,091
Payment Less Interest	(65,091)
Present Value of Minimum Lease Payments	<u>\$ 405,000</u>

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Long-term Debt (Continued)

C. Financing Obligations – Jail Fund

On March 9, 2005, the County entered into a short-term lease in the amount of \$499,999 with Kentucky Association Of Counties Leasing Trust (KACOLT) to fund preliminary work on their detention center expansion. On May 25, 2005 the County entered into a lease-purchase agreement with KACOLT for the construction of the detention center expansion. The short-term lease of \$499,999 was paid off on July 27, 2005 with proceeds from this capital lease; however, as of June 30, 2005 the principal outstanding on the short-term lease was \$499,999. This balance is included in the current liabilities portion of financing obligations on the Statement of Net Assets. The lease term for this agreement is 14 years with the balance to be paid in full January 20, 2019. The total balance of the agreement is \$6,400,000 as of June 30, 2005.

The following is a schedule of future minimum lease payments as of June 30, 2005:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2006	\$ 185,000	\$ 363,514
2007	195,000	319,730
2008	210,000	309,617
2009	220,000	298,287
2010	230,000	286,611
2011-2014	1,055,000	1,016,642
2015-2019	4,305,000	875,445
Totals	<u>\$ 6,400,000</u>	<u>\$3,469,846</u>

D. General Obligation Bonds, Series 1999

Shelby County Fiscal Court (County) issued general obligation bonds of \$5,200,000, series 1999, dated April 1, 1999, to fund the acquisition and construction of the Clear Creek Family Activities Center. These bonds were issued at varying interest rates ranging from 3.40% to 4.85%, and will be retired by August 1, 2020. Interest payments are due on February 1 and interest and principal August 1. Fiscal Court has entered into a lease agreement with the City of Shelbyville (City) and the Shelbyville/Shelby County Parks and Recreation Commissions (Parks Commission) for their portion of the bond issue. The City is responsible for \$500,000 in principal and interest payments; the Parks Commission \$2,200,000 in principal and interest payments and the County \$2,500,000 in principal and interest. The City and the Parks Commission make their payments to the County, which in turn pays the paying agent. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Long-term Debt (Continued)

D. General Obligation Bonds, Series 1999 (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Interest	Principal
2006	195,390	210,000
2007	186,836	215,000
2008	177,768	230,000
2009	168,013	240,000
2010	157,597	250,000
2011-2014	514,206	1,105,000
2015-2019	319,334	1,725,000
2020-2024	20,734	425,000
Totals	<u>\$ 1,739,878</u>	<u>\$4,400,000</u>

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 4,600,000	\$	\$ 200,000	\$ 4,400,000	\$ 210,000
Financing Obligations	<u>753,000</u>	<u>6,400,000</u>	<u>79,000</u>	<u>7,074,000</u>	<u>265,000</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 5,353,000</u>	<u>\$ 6,400,000</u>	<u>\$ 279,000</u>	<u>\$11,474,000</u>	<u>\$ 475,000</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$28,145 in interest on financing obligations.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2005, Shelby County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2004 (year of GASB 34 implementation) is an estimate. For those assets, the primary governmental estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. The estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through the current fiscal year. All infrastructure assets placed in service during the fiscal year ended June 30, 2004, and thereafter are recorded at actual historical cost.

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SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 4,042,000	\$ 4,042,000	\$ 5,902,421	\$ 1,860,421
Excess Fees	320,791	320,791	473,872	153,081
Licenses and Permits	62,400	62,400	165,734	103,334
Intergovernmental Revenue	693,107	1,173,108	860,049	(313,059)
Charges for Services	11,000	11,957	14,107	2,150
Miscellaneous	1,565,152	1,611,976	2,089,543	477,567
Interest	75,000	75,000	117,413	42,413
Total Revenues	6,769,450	7,297,232	9,623,139	2,325,907
EXPENDITURES				
General Government	3,065,059	3,162,364	2,822,958	339,406
Protection to Persons and Property	969,316	1,195,685	961,843	233,842
General Health and Sanitation	790,594	933,493	552,044	381,449
Social Services	430,000	441,413	485,601	(44,188)
Recreation and Culture	948,490	997,264	865,703	131,561
Debt Service	180,095	180,095	78,705	101,390
Administration	2,184,000	2,185,022	1,879,479	305,543
Total Expenditures	8,567,554	9,095,336	7,646,333	1,449,003
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,798,104)	(1,798,104)	1,976,806	3,774,910
OTHER FINANCING SOURCES (USES)				
Leasing Account Receipts	211,000	211,000		(211,000)
Transfers To Other Funds	(2,450,995)	(2,450,995)	(2,440,330)	10,665
Total Other Financing Sources (Uses)	(2,450,995)	(2,450,995)	(2,440,330)	(200,335)
Net Changes in Fund Balance	(4,038,099)	(4,038,099)	(463,524)	3,574,575
Fund Balance - Beginning	4,038,099	4,038,099	7,033,391	2,995,292
Fund Balance - Ending	\$ 0	\$ 0	\$ 6,569,867	\$ 6,569,867

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,529,919	\$ 1,529,919	\$ 970,828	\$ (559,091)
Miscellaneous	15,000	71,352	59,001	(12,351)
Interest	15,000	15,000	25,428	10,428
Total Revenues	1,559,919	1,616,271	1,055,257	(561,014)
EXPENDITURES				
Protection to Persons and Property	1,000	1,000	625	375
Roads	1,681,000	1,737,352	1,304,798	432,554
Capital Projects	400,000	400,000	77,943	322,057
Administration	325,450	325,450	199,442	126,008
Total Expenditures	2,407,450	2,463,802	1,582,808	880,994
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(847,531)	(847,531)	(527,551)	319,980
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			500,000	500,000
Total Other Financing Sources (Uses)			500,000	500,000
Net Changes in Fund Balance	(847,531)	(847,531)	(27,551)	819,980
Fund Balance - Beginning	847,531	847,531	1,585,213	737,682
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,557,662	\$ 1,557,662

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 630,682	\$ 630,682	\$ 790,436	\$ 159,754
Charges for Services	96,000	96,000	120,087	24,087
Miscellaneous	38,500	333,639	88,052	(245,587)
Interest			2,264	2,264
Total Revenues	765,182	1,060,321	1,000,839	(59,482)
EXPENDITURES				
Protection to Persons and Property	1,521,094	1,531,432	1,550,877	(19,445)
Debt Service		758,973	754,317	4,656
Administration	478,225	504,052	413,093	90,959
Total Expenditures	1,999,319	2,794,457	2,718,287	76,170
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,234,137)	(1,734,136)	(1,717,448)	16,688
OTHER FINANCING SOURCES (USES)				
Capital Lease Proceeds		499,999	6,899,999	6,400,000
Transfers From Other Funds	1,234,137	1,234,137	983,830	(250,307)
Total Other Financing Sources (Uses)	1,234,137	1,734,136	7,883,829	6,149,693
Net Changes in Fund Balance			6,166,381	6,166,381
Fund Balance - Beginning			17,956	17,956
Fund Balance - Ending	\$ 0	\$ 0	\$ 6,184,337	\$ 6,184,337

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	EMS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 10,000	\$ 10,000	\$ 10,689	\$ 689
Charges for Services	801,000	801,000	1,020,313	219,313
Miscellaneous	46,707	46,707	3,641	(43,066)
Interest	350	350	923	573
Total Revenues	<u>858,057</u>	<u>858,057</u>	<u>1,035,566</u>	<u>177,509</u>
EXPENDITURES				
Protection to Persons and Property	1,436,726	1,481,110	1,457,094	24,016
Administration	638,189	593,805	537,238	56,567
Total Expenditures	<u>2,074,915</u>	<u>2,074,915</u>	<u>1,994,332</u>	<u>80,583</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,216,858)</u>	<u>(1,216,858)</u>	<u>(958,766)</u>	<u>258,092</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>1,216,858</u>	<u>1,216,858</u>	<u>956,500</u>	<u>(260,358)</u>
Total Other Financing Sources (Uses)	<u>1,216,858</u>	<u>1,216,858</u>	<u>956,500</u>	<u>(260,358)</u>
Net Changes in Fund Balances			(2,266)	(2,266)
Fund Balances - Beginning			<u>33,786</u>	<u>33,786</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 31,520</u>	<u>\$ 31,520</u>

SHELBY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**SHELBY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

**SHELBY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

	LGEA Fund	Special Fund	KACOLT Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 148,271	\$ 235,125	\$ 222,647	\$ 606,043
Total Assets	<u>\$ 148,271</u>	<u>\$ 235,125</u>	<u>\$ 222,647</u>	<u>\$ 606,043</u>
FUND BALANCES				
Unreserved:				
Debt Service Fund	\$	\$	\$ 222,647	\$ 222,647
Special Revenue Funds	<u>148,271</u>	<u>235,125</u>		<u>383,396</u>
Total Fund Balances	<u>\$ 148,271</u>	<u>\$ 235,125</u>	<u>\$ 222,647</u>	<u>\$ 606,043</u>

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SHELBY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

SHELBY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	LGEA Fund	Special Fund	KACOLT Fund	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental	\$ 42,728	\$ 388,046	\$ 32,127	\$ 462,901
Miscellaneous		3,494	2,875	6,369
Total Revenues	<u>42,728</u>	<u>391,540</u>	<u>35,002</u>	<u>469,270</u>
EXPENDITURES				
General Health and Sanitation		430,590		430,590
Debt Service			28,440	28,440
Total Expenditures		<u>430,590</u>	<u>28,440</u>	<u>459,030</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>42,728</u>	<u>(39,050)</u>	<u>6,562</u>	<u>10,240</u>
Net Change in Fund Balances	42,728	(39,050)	6,562	10,240
Fund Balances - Beginning	105,543	274,175	216,085	595,803
Fund Balances - Ending	<u>\$ 148,271</u>	<u>\$ 235,125</u>	<u>\$ 222,647</u>	<u>\$ 606,043</u>

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SHELBY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2005

**SHELBY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, business - type activities, each major fund, and aggregate remaining fund information of Shelby County, Kentucky.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instance of noncompliance material to the financial statements of Shelby County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Shelby County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Shelby County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant (CFDA 14.228)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Shelby County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

None.

REPORTABLE CONDITIONS

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS

Reference Number 1: "The County should require depository institutions to pledge or provide sufficient collateral to protect deposits." This finding was corrected.

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SHELBY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**SHELBY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2005

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Housing and Urban Development:		
Passed-through Kentucky Governor's		
Office for Local Development:		
Community Development Block Grant (CFDA 14.228)		
Shelby County Health Department		
Construction Grant	M-03081192	\$ 430,590
U.S. Department of Justice:		
State Criminal Alien Assistance Program (CFDA 16.606)		
OJP Office 2004-AP-BX-0719		100,320
U.S. Department of Homeland Security:		
Passed-through Kentucky Department of		
Military Affairs:		
State Domestic Preparedness Equipment		
Support Program (CFDA 97.004)		
Homeland Security Grant	M-03138124	19,708
Homeland Security Grant	M-03254738	13,345
Hazardous Material Team 6	M-03019411	1,800
Hazardous Material Team 6	M-03255125	66,208
Hazardous Material Team 6	M-03255396	11,746
Hazardous Material Team 6	M-04210212	121,863
Disaster and Emergency Assistance (CFDA 97.036)		
Coordinator Salary	not available	<u>28,543</u>
Total U.S. Department of Homeland Security		<u>263,213</u>
Total Expenditures of Federal Awards		<u>\$ 794,123</u>

SHELBY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2005

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Shelby County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rob Rothenburger, Shelby County Judge/Executive
Members of the Shelby County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shelby County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 10, 2006. Shelby County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shelby County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Shelby County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 10, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rob Rothenburger, Shelby County Judge/Executive
Members of the Shelby County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Shelby County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Shelby County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Shelby County's management. Our responsibility is to express an opinion on Shelby County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shelby County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Shelby County's compliance with those requirements.

In our opinion, Shelby County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Shelby County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Shelby County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 10, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

SHELBY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**

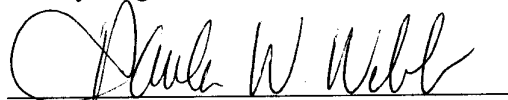
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
SHELBY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Shelby County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Rob Rothenburger
County Judge/Executive



Paula Webb
County Treasurer